

AUDITED FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST  
COUNCIL, INC.  
COOKEVILLE, TENNESSEE

June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Upper Cumberland Broadcast Council, Inc.  
Cookeville, Tennessee

We have audited the accompanying financial statements of Upper Cumberland Broadcast Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upper Cumberland Broadcast Council, Inc. as of June 30, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Report on Summarized Comparative Information**

We have previously audited the Upper Cumberland Broadcast Council, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also issued our report dated November 6, 2014, on our consideration of the Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and compliance.

*Bratcher, Horton, Melton & Associates, PLLC*

Certified Public Accountants

November 6, 2014

STATEMENT OF FINANCIAL POSITION

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| <u>ASSETS</u>                                 |                     |                     |
| <u>CURRENT ASSETS</u>                         |                     |                     |
| Cash  | \$ 248,109          | \$ 53,339           |
| Accounts receivable                           | 33,895              | 20,235              |
| Memberships receivable                        | 2,450               | 1,200               |
| Grants receivable                             | 14,008              | 12,988              |
| Employee receivable                           | 329                 | 1,047               |
| Investments                                   | 8,247               | 8,034               |
| TOTAL CURRENT ASSETS                          | <u>307,038</u>      | <u>96,843</u>       |
| Property and equipment, net                   | <u>1,859,794</u>    | <u>2,232,630</u>    |
| TOTAL ASSETS                                  | <u>\$ 2,166,832</u> | <u>\$ 2,329,473</u> |
| <u>LIABILITIES AND NET ASSETS</u>             |                     |                     |
| <u>CURRENT LIABILITIES</u>                    |                     |                     |
| Accounts payable                              | \$ 146,801          | \$ 15,994           |
| Accrued payroll                               | 25,640              | 23,001              |
| Payroll deductions payable                    | 3,305               | 1,682               |
| Line of credit                                | 90,000              | -                   |
| Accrued compensated absences                  | 25,352              | 28,319              |
| Current portion of long-term lease obligation | 3,719               | 3,016               |
| Unearned rental income - current              | 6,334               | 6,334               |
| TOTAL CURRENT LIABILITIES                     | <u>301,151</u>      | <u>78,346</u>       |
| <u>NON-CURRENT LIABILITIES</u>                |                     |                     |
| Long-term capital lease obligation            | 2,752               | 6,471               |
| Unearned rental income - deferred             | 31,666              | 37,999              |
| TOTAL NONCURRENT LIABILITIES                  | <u>34,418</u>       | <u>44,470</u>       |
| TOTAL LIABILITIES                             | <u>335,569</u>      | <u>122,816</u>      |
| <u>NET ASSETS</u>                             |                     |                     |
| Unrestricted net assets                       | 1,831,263           | 2,206,657           |
| TOTAL NET ASSETS                              | <u>1,831,263</u>    | <u>2,206,657</u>    |
| TOTAL LIABILITIES AND NET ASSETS              | <u>\$ 2,166,832</u> | <u>\$ 2,329,473</u> |

See independent auditors' report and notes to financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For the years ended June 30, 2014 with comparative totals as of June 30, 2013

|   | Unrestricted        | 2014 Total          | 2013 Total          |
|---|---------------------|---------------------|---------------------|
| <b>SUPPORT AND REVENUE</b>                                |                     |                     |                     |
| State of Tennessee - Appropriation                        | \$ 450,164          | \$ 450,164          | \$ 469,439          |
| Corp. for Public Broadcasting:                            |                     |                     |                     |
| Community service grant                                   | 636,611             | 636,611             | 553,121             |
| Interconnection grant                                     | 12,202              | 12,202              | 11,198              |
| Local service grant                                       | 56,757              | 56,757              | 80,974              |
| BGU grant   | 130,000             | 130,000             | -                   |
| Equipment grant   | -                   | -                   | 30,365              |
| Other grants  | 50,805              | 50,805              | 174,815             |
| Local government  | 37,000              | 37,000              | 37,550              |
| Donated facilities  | 65,952              | 65,952              | 65,952              |
| In-kind   | 42,181              | 42,181              | 145,109             |
| Auction revenue   | 113,721             | 113,721             | 90,709              |
| Development event revenue                                 | 69,756              | 69,756              | 37,913              |
| Royalties   | 2,582               | 2,582               | 3,256               |
| Membership revenue  | 104,387             | 104,387             | 104,228             |
| Contributions   | 12,348              | 12,348              | 13,243              |
| Underwriting revenue                                      | 87,056              | 87,056              | 77,760              |
| Productions   | 26,639              | 26,639              | 45,899              |
| Broadcast revenue   | 44,300              | 44,300              | 41,672              |
| Rental revenues   | 6,333               | 6,333               | 6,333               |
| Net realized and unrealized gains (losses) on investments | 317                 | 317                 | 1,116               |
| Distribution from PBS on sale of equity in Sprout         | 19,069              | 19,069              | -                   |
| Miscellaneous income                                      | 630                 | 630                 | 772                 |
| Gain (loss) on sale/disposal of fixed assets              | -                   | -                   | (4,376)             |
| Total public support, revenues,<br>and reclassifications  | <u>1,968,810</u>    | <u>1,968,810</u>    | <u>1,987,048</u>    |
| <b>EXPENSES</b>   |                     |                     |                     |
| Production and programming                                | 799,395             | 799,395             | 695,297             |
| Broadcast and technical                                   | 404,647             | 404,647             | 436,685             |
| Education and outreach                                    | 42,930              | 42,930              | 50,667              |
| Membership  | 69,284              | 69,284              | 70,311              |
| Development and fundraising                               | 185,575             | 185,575             | 172,537             |
| Management and general                                    | 842,373             | 842,373             | 1,102,716           |
| Total expenses  | <u>2,344,204</u>    | <u>2,344,204</u>    | <u>2,528,213</u>    |
| Change in net assets                                      | (375,394)           | (375,394)           | (541,165)           |
| Net assets at beginning of year                           | <u>2,206,657</u>    | <u>2,206,657</u>    | <u>2,747,822</u>    |
| <b>NET ASSETS AT END OF YEAR</b>                          | <u>\$ 1,831,263</u> | <u>\$ 1,831,263</u> | <u>\$ 2,206,657</u> |

See independent auditors' report and notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For years ended June 30, 2014 with comparative totals as of June 30, 2013

|                                       | Program Services         |                                 |                      |               |                        | Supporting Services       |                      | Totals           |                  |
|---------------------------------------|--------------------------|---------------------------------|----------------------|---------------|------------------------|---------------------------|----------------------|------------------|------------------|
|                                       | Production & Programming | Broadcast Engineering & Digital | Education & Outreach | Membership    | Total Program Services | Development & Fundraising | Management & General | 2014             | 2013             |
| Compensation & related expenses       |                          |                                 |                      |               |                        |                           |                      |                  |                  |
| Compensation                          | \$ 141,294               | \$ 165,543                      | \$ 18,488            | \$ 30,875     | \$ 356,200             | \$ 67,341                 | \$ 120,034           | \$ 543,575       | \$ 569,296       |
| Employee benefits                     | 18,646                   | 25,499                          | 217                  | 4,654         | 49,016                 | 10,388                    | 15,837               | 75,241           | 79,731           |
| Payroll taxes                         | 11,681                   | 13,682                          | 1,769                | 2,616         | 29,748                 | 6,860                     | 9,262                | 45,870           | 43,259           |
| Total Compensation & related expenses | 171,621                  | 204,724                         | 20,474               | 38,145        | 434,964                | 84,589                    | 145,133              | 664,686          | 692,286          |
| Supplies                              | 1,889                    | 3,750                           | 1,406                | 318           | 7,363                  | 21,029                    | 5,884                | 34,276           | 32,994           |
| Minor equipment                       | 60                       | 2,739                           | -                    | -             | 2,799                  | 449                       | 33                   | 3,281            | 21,273           |
| Gas & auto expenses                   | 2,925                    | 220                             | 100                  | 46            | 3,291                  | 1,106                     | 370                  | 4,767            | 5,163            |
| Professional services                 | 10,110                   | -                               | -                    | -             | 10,110                 | 1,776                     | 69,986               | 81,872           | 122,141          |
| Printing & publications               | 7,332                    | 47                              | 187                  | 847           | 8,413                  | 4,602                     | -                    | 13,015           | 14,827           |
| Purchased services                    | 147,380                  | 8,711                           | 7,150                | 5,015         | 168,256                | 18,493                    | 33,097               | 219,846          | 108,686          |
| Communications & utilities            | 61                       | 160,563                         | -                    | -             | 160,624                | 3,877                     | 11,010               | 175,511          | 187,753          |
| Special events                        | -                        | -                               | 10,031               | 1,506         | 11,537                 | 243                       | 641                  | 12,421           | 15,997           |
| Programming                           | 432,919                  | -                               | -                    | -             | 432,919                | -                         | -                    | 432,919          | 384,695          |
| Rent                                  | 4,573                    | -                               | -                    | -             | 4,573                  | 17,003                    | 9,584                | 31,160           | 27,482           |
| Maintenance                           | -                        | 18,209                          | -                    | -             | 18,209                 | 85                        | 580                  | 18,874           | 12,210           |
| Membership fees & dues                | 12,611                   | -                               | -                    | 4,334         | 16,945                 | 425                       | 31,387               | 48,757           | 43,705           |
| Meetings, conferences & travel        | 3,461                    | 3,228                           | 2,528                | 222           | 9,439                  | 8,708                     | 9,408                | 27,555           | 28,171           |
| Postage & shipping                    | 4,413                    | 504                             | 533                  | 1,248         | 6,698                  | 429                       | 1,196                | 8,323            | 9,398            |
| Premium expense                       | -                        | -                               | -                    | 16,153        | 16,153                 | -                         | -                    | 16,153           | 14,351           |
| Insurance                             | -                        | -                               | -                    | -             | -                      | 1,181                     | 37,661               | 38,842           | 36,937           |
| In-kind donations                     | -                        | -                               | -                    | -             | -                      | -                         | 108,133              | 108,133          | 179,657          |
| Advertising                           | -                        | -                               | -                    | 1,450         | 1,450                  | 2,812                     | 77                   | 4,339            | 10,171           |
| Uncollectible accounts                | -                        | -                               | -                    | -             | -                      | 500                       | 500                  | 1,000            | 2,095            |
| Interest                              | -                        | -                               | -                    | -             | -                      | -                         | 2,376                | 2,376            | 3,371            |
| Depreciation expense                  | -                        | -                               | -                    | -             | -                      | -                         | 372,837              | 372,837          | 547,391          |
| Miscellaneous                         | 40                       | 1,952                           | 521                  | -             | 2,513                  | 1,989                     | 2,480                | 6,982            | 14,543           |
| Ready to learn materials & supplies   | -                        | -                               | -                    | -             | -                      | -                         | -                    | -                | -                |
| Agency account fees                   | -                        | -                               | -                    | -             | -                      | 2,748                     | -                    | 2,748            | 1,487            |
| Commissions                           | -                        | -                               | -                    | -             | -                      | 13,531                    | -                    | 13,531           | 11,429           |
|                                       | <u>799,395</u>           | <u>404,647</u>                  | <u>42,930</u>        | <u>69,284</u> | <u>1,316,256</u>       | <u>185,575</u>            | <u>842,373</u>       | <u>2,344,204</u> | <u>2,528,213</u> |

See independent auditors' report and notes to financial statements.

STATEMENT OF CASH FLOWS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For the years ended June 30, 2014 with comparative totals as of June 30, 2013

|  | <u>2014</u>       | <u>2013</u>      |
|--|-------------------|------------------|
| Cash flows from operating activities:  |                   |                  |
| Change in net assets   | \$ (375,394)      | \$ (541,165)     |
| Adjustments to reconcile change in net assets to net cash (used) / provided in operating activities: |                   |                  |
| Depreciation   | 372,837           | 547,391          |
| (Gain)/Loss on disposal of equipment   | -                 | 4,376            |
| Net investment (gains) losses  | (48)              | (845)            |
| Contributions of investments and equipment   | -                 | (32,419)         |
| (Increase) Decrease in operating assets:   |                   |                  |
| Receivables  | (15,930)          | 107,172          |
| Employee receivable  | 718               | (267)            |
| Investments  | -                 | -                |
| Increase (Decrease) in operating liabilities:  |                   |                  |
| Accounts payable   | 130,807           | 5,798            |
| Accrued compensated absences   | (2,967)           | 4,030            |
| Accrued payroll  | 2,639             | 2,103            |
| Payroll deductions payable   | <u>1,623</u>      | <u>(4,899)</u>   |
| NET CASH (USED) / PROVIDED BY OPERATING ACTIVITIES   | <u>114,285</u>    | <u>91,275</u>    |
| Cash flows from investing activities:  |                   |                  |
| Proceeds from sale of equipment  | -                 | 4,999            |
| Reinvestment of interest and dividends   | (165)             | (139)            |
| Purchase of equipment  | <u>-</u>          | <u>(62,543)</u>  |
| NET CASH (USED) / PROVIDED BY INVESTING ACTIVITIES   | <u>(165)</u>      | <u>(57,683)</u>  |
| Cash flows from financing activities:  |                   |                  |
| Borrowing from line of credit  | 190,000           | 100,000          |
| Payment on line of credit  | (100,000)         | (100,000)        |
| Payment on long-term lease obligation  | (3,016)           | (1,163)          |
| Net unearned revenue collected (earned)  | <u>(6,334)</u>    | <u>(6,334)</u>   |
| NET CASH (USED) / PROVIDED BY INVESTING ACTIVITIES   | <u>80,650</u>     | <u>(7,497)</u>   |
| NET (DECREASE) / INCREASE IN CASH  | 194,770           | 26,095           |
| CASH AT BEGINNING OF YEAR  | <u>53,339</u>     | <u>27,244</u>    |
| CASH AT END OF YEAR  | <u>\$ 248,109</u> | <u>\$ 53,339</u> |
| Noncash investing and financing transactions:  |                   |                  |
| Fair value of contributed investment   | \$ -              | \$ 1,015         |
| Donated property and equipment   | -                 | 31,404           |

Supplemental disclosure of cash flow information:

Cash paid during the year for interest was \$2,376 and \$3,371 respectively, none of which was capitalized.

See independent auditors' report and notes to financial statements.



## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization and Nature of Activities**

The Upper Cumberland Broadcast Council, Inc. (the Council) is a PBS affiliated television station serving the Upper Cumberland region. January 16, 1986, the Tennessee State Board of Education transferred to the Council all its rights to the Federal Communications Broadcast License in accordance with Chapter 514 of the Tennessee Public Broadcast Act of 1983. No value was assigned by the Council. The Council serves the citizens of the Upper Cumberland region by providing diversified programming and quality instructional programs. The Council's support comes primarily from federal and state government grants and various corporate and individual donors.

#### **Public Support and Revenue**

Contributions are recognized when the donor makes a promise to give to the Council that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net asset. All promises to give at June 30, 2014 and 2013 were due in one year.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Cash and Cash Equivalents cash amount**

For purposes of the statements of cash flows, the Council considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

#### **Receivables**

Receivables consist of amounts due currently from members and sponsors and grantors. The Council considers any amount over 90 days old to be past due. Management evaluates the need to write-off a receivable based on its review of accounts receivable and historical collection experience. Management writes off a receivable as a charge to bad debt expense, when in its estimation, it is probable the receivable is worthless. Recoveries of accounts previously written off are recorded as reduction in bad debt expense when collected. The Council believes that all accounts receivable at June 30, 2014 and 2013 will be fully collected. Accordingly, no allowance for doubtful accounts is required.

#### **Program Fees**

Amounts paid for programs are expensed as incurred as the programs are aired within the same fiscal year.

## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

#### **Advertising**

Advertising is expensed as incurred. Advertising expense as of June 30, 2014 and 2013 was \$4,339 and \$10,171, respectively.

#### **Property and Equipment**

It is the Council's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted at that time.

Depreciation is calculated using the straight-line method and half-year convention over the following estimated useful lives:

|                                   |              |
|-----------------------------------|--------------|
| Buildings                         | 30 years     |
| Leasehold improvements            | 10 years     |
| Vehicles                          | 5 years      |
| Furniture, fixtures and equipment | 3 – 30 years |

#### **Financial Statement Presentation**

The Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### **Reclassification**

Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format.

#### **Compensated Absences**

Employees of the Organization are entitled to be paid for unused vacation days upon termination and retirement. The Organization accrues a liability for vacation at fiscal year-end.

## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

#### **Income Taxes**

The Council is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. For fiscal tax years 2014 and 2013, the council reported zero unrelated business income. The Corporation uses the same accounting methods for income tax and financial reporting.

Management has evaluated its tax positions for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2011, 2012, and 2013 tax years. However, the Corporation is not currently under audit nor has the Corporation been contacted by any jurisdiction. Based on the evaluation of the Corporation's tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the fiscal year ended June 30, 2014.

#### **Fair Value Measures**

The Organization reports its fair value measures using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GAAP are:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, inputs supported by little or no market activity).

#### **Investments**

Investments in marketable securities are stated at fair value in the statements of financial position. The fair value of equity securities is determined based upon quoted prices in active markets (Level 1 measurements). Realized and unrealized gains and losses are included in the change in net assets and are included in the statements of activities as net realized and unrealized gains (losses) on investments.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

**NOTE 2: EMPLOYEE BENEFIT PLAN**

The State of Tennessee, Public Chapter No. 339, house Bill No. 304, provides for the continuation of certain benefits for employees of publicly owned educational television stations. Certain employees may elect to remain a member of the State of Tennessee Consolidated Retirement System with the Council being responsible for all employer costs incurred as a result of the employees electing to remain a member of the retirement system. The plan is not permitted to accept new participants. Employer contributions for the year were \$16,661.

**NOTE 3: SAVINGS INCENTIVE MATCH**

WCTE offers up to a 3% match of employee wage contribution for a simple IRA fund if the employee is eligible. To be eligible, the employee must have earned at least \$5,000 in the prior two years and must be expected to earn \$5,000 in the current year. The Council's contributions for the year ended June 30, 2014 was \$2,797.

**NOTE 4: PROPERTY & EQUIPMENT**

The following is a summary of property & equipment as of June 30, 2014 and 2013:

|                                     | <u>2014</u>         | <u>2013</u>         |
|-------------------------------------|---------------------|---------------------|
| Property and equipment:             |                     |                     |
| Land                                | \$ 23,300           | \$ 23,300           |
| Building and leasehold improvements | 117,903             | 117,903             |
| Broadcast equipment                 | 6,695,620           | 6,695,620           |
| Automotive equipment                | 41,321              | 41,321              |
|                                     | <u>6,878,144</u>    | <u>6,878,144</u>    |
| Accumulated depreciation            | (5,018,350)         | (4,645,514)         |
| Total property and equipment        | <u>\$ 1,859,794</u> | <u>\$ 2,232,630</u> |

Depreciation expense for the years ended June 30, 2014 and 2013 was \$372,837 and \$547,391, respectively.

**NOTE 5: FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 6: LINE OF CREDIT**

The Council has a \$100,000 unsecured bank line of credit with First Tennessee Bank National Association. \$90,000 was borrowed against the line on June 30, 2014 and was outstanding as of that date. There were no borrowings against the line of credit at June 30, 2013. The line of credit bears interest at 1% above the lowest U.S Prime Rates as published in the Wall Street Journal. The line of credit is unsecured.

## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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### **NOTE 7: CONCENTRATIONS**

The Council receives approximately 70% of its revenues from grant funding sources. The Council must make an annual application for these funds and no guarantees exist that these funds will be received.

Financial instruments that potentially subject the Council to concentrations of credit risk consist principally of cash, marketable securities, and receivables.

The Council maintains its cash accounts in commercial banks located in Tennessee. Accounts at each bank are guaranteed by the federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Amounts on deposit at various times through the year in a single financial institution exceed the \$250,000 federally insured limit. There were no uninsured balances at June 30, 2014.

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Accounts and other receivables are due from a variety of sources concentrated primarily within Tennessee. The grant receivable is an amount due from the Nashville Public Television.

Management believes that the Council is not exposed to any significant credit risk related to the above accounts.

### **NOTE 8: DONATED MATERIALS, FACILITIES AND SERVICES**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

The Council utilizes donated facilities from Tennessee Technological University. These facilities consist of office and studio space. The estimated fair rental value as of June 30, 2014 and June 30, 2013 was \$65,952. The estimated fair rental is based upon current market conditions within the local area.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recorded \$42,181 and \$145,109 in donated services and fixed assets, in the years ended June 30, 2014 and 2013, respectively most of which was charged to management and general expenses. Additionally, many individuals volunteer their time and perform a variety of tasks that assist the Organization but those services did not meet the criteria for recognition and have not been recognized in these financial statements.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

**NOTE 9: UNEARNED RENTAL INCOME**

As of August 1, 2006, the Council entered into a fifteen-year contract to lease a transmitter building and related improvements located on property the Council owns in Putnam County, Tennessee. The terms of the contract stated that the Council received all rents for the contract period upfront. The Council's unearned rental income at June 30, 2014; and 2013 was \$38,000 and \$44,333, respectively.

**NOTE 10: OPERATING LEASE COMMITMENTS**

The Council is obligated under various non-cancelable leases for office space, automobiles and technical equipment in approximate annual amounts. Minimum lease commitments under these leases are as follows:

|                                   |                  |
|-----------------------------------|------------------|
| For the year ending June 30, 2015 | <u>\$ 11,130</u> |
|-----------------------------------|------------------|

Rental expense was \$16,828 and \$14,370 for the fiscal years ended June 30, 2014 and 2013, respectively. All of the payments were for minimum rentals.

**NOTE 11: FAIR VALUE MEASUREMENT**

The following table presents the assets and liabilities recognized in the accompanying statements of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at June 30, 2014 and 2013:

|                         | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------------|----------------|----------------|----------------|
| <u>2014</u>             |                |                |                |
| U.S. Corporate equities | \$ 5,913       | \$ --          | \$ --          |
| Cash                    | 2,334          | --             | --             |
| Total                   | \$ 8,247       | \$ --          | \$ --          |
| <u>2013</u>             |                |                |                |
| U.S. Corporate equities | \$ 7,757       | \$ --          | \$ --          |
| Cash                    | 277            | --             | --             |
| Total                   | \$ 8,034       | \$ --          | \$ --          |

Investments earned the following:

|                           | <u>2014</u> | <u>2013</u> |
|---------------------------|-------------|-------------|
| Interest and dividends    | \$ 216      | \$ 271      |
| Unrealized gains (losses) | (255)       | 845         |
| Realized gains (losses)   | 356         | --          |
|                           | \$ 317      | \$ 1,116    |

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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**NOTE 11: FAIR VALUE MEASUREMENT, (continued)**

Determinations of transfers between levels are made at June 30 of each fiscal year. There were no transfers during either year.

**NOTE 12: CAPITAL LEASE OBLIGATION**

On November 13, 2012, the Organization financed its purchase of equipment under a capital lease agreement expiring in 2016. The liability, representing the present value of future minimum lease payments, totaled \$10,649. The leased asset is amortized over its estimated productive life. Amortization of assets under capital lease is included in depreciation expense. Following is a summary of the equipment held under capital lease at June 30, 2014:

|                               |                 |
|-------------------------------|-----------------|
| Telephone Equipment           | \$10,649        |
| Less accumulated depreciation | <u>3,195</u>    |
|                               | <u>\$ 7,454</u> |

Aggregate future minimum lease payments under the capital lease obligation as of June 30, 2014 are approximated as follows:

| <u>Year Ending June 30</u>              |                 |
|---|-----------------|
| 2015                                    | 4,740           |
| 2016                                    | <u>2,962</u>    |
| Total Future Minimum Lease Payments     | \$ 7,702        |
| Amount representing interest            | <u>(1,231)</u>  |
| Present Value of Minimum Lease Payments | \$ 6,471        |
| Less: Current Portion                   | <u>3,719</u>    |
| Long-Term Capital Lease Obligation      | <u>\$ 2,752</u> |

Total interest expense under this capital lease for the year ended June 30, 2014 was \$1,724.

**NOTE 13: SUBSEQUENT EVENTS**

Subsequent to the balance sheet date the Council accessed its line of credit to meet short-term cash flow needs. \$10,000 was borrowed on August 22, 2014 which left the amount outstanding on the credit line \$100,000. The credit line was repaid in full on October 3, 2014 with interest of \$465. Additional interest payments of \$117 and \$24 were made on July 25, 2014 and October 31, 2014 respectively.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2014 with comparative totals as of June 30, 2013

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**NOTE 13: SUBSEQUENT EVENTS, (continued)**

A direct appropriations grant from the State of Tennessee has been received as of September 10, 2014 in the amount of \$430,793. Three grants from the Corporation of Public Broadcasting totaling \$719,080 are pending the completion of certain legal paper work and financial reporting. Subsequent events have been evaluated for accrual and/or disclosure through November 6, 2014, the date the financial statements were available to be released.

**NOTE 14: TOWER RENTAL**

The Corporation receives revenue for tower rental under two operating leases with remaining terms of 2 to 3 years. Both of these leases have at least one five-year renewal period remaining.

Future minimum rentals under the above leases are as follows:

| <u>Year Ending June 30</u> |                   |
|----------------------------|-------------------|
| 2015                       | 43,764            |
| 2016                       | 43,764            |
| 2017                       | 20,754            |
| 2018                       | 6,221             |
|                            | <hr/>             |
|                            | <b>\$ 114,503</b> |

**NOTE 15: COMMITMENTS AND CONTINGENCIES**

Certain contracts and grants received by the Organization are subject to audit or review by the grantor/payer agencies. As a result of these audits or reviews, the Organization may be required to repay a portion of grant or contract funds received. However, management does not believe any liability related to its grants and contracts would be material.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Upper Cumberland Broadcast Council, Inc.  
Cookeville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Upper Cumberland Broadcast Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Cumberland Broadcast Council, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Upper Cumberland Broadcast Council, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given

these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Upper Cumberland Broadcast Council, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bratcher, Horton, Melton & Associates, PLLC*

Certified Public Accountants

November 6, 2014

**Bratcher, Horton, Melton & Associates, PLLC**

*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH ASPECTS OF CONTRACTURAL AGREEMENTS AND  
REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

To the Board of Directors  
Upper Cumberland Broadcast Council, Inc.  
Cookeville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Upper Cumberland Broadcast Council, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Upper Cumberland Broadcast Council, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Upper Cumberland Broadcast Council, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Upper Cumberland Broadcast Council, Inc.'s accounting and records to indicate that Upper Cumberland Broadcast Council, Inc. did not (as applicable):

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Bratcher, Norton, Melton & Associates, PLLC*

Certified Public Accountants  
November 6, 2014